

ORCHAN MINES LIMITED

ANNUAL REPORT 1974

ORCHAN MINES LIMITED

HEAD OFFICE: Suite 4500, Commerce Court West,
Toronto, Ontario M5L 1B6

MINE OFFICE: Matagami, Quebec

DIRECTORS

R. A. CRANSTON	MICHEL C. DUMAS
J. P. DOLAN	WM. JAMES
W. S. ROW	D. E. G. SCHMITT
J. H. STOVEL	

OFFICERS

J. P. DOLAN	- - - - -	<i>Chairman</i>
D. E. G. SCHMITT	- - - - -	<i>President</i>
WM. JAMES	- - - - -	<i>Vice-President</i>
R. C. ASHENHURST	- - - - -	<i>Secretary</i>
E. K. CORK	- - - - -	<i>Treasurer</i>
B. C. BONE	- - - - -	<i>Assistant Treasurer</i>
V. H. K. SCOTT	- - - - -	<i>Comptroller</i>
J. M. SLACK	- - - - -	<i>General Manager</i>

TRANSFER AGENT AND REGISTRAR: THE STERLING TRUSTS CORPORATION, Toronto, Ontario

ANNUAL MEETING: April 18, 1975, 11:30 a.m., Toronto Time, Royal York Hotel, Toronto, Ontario

DIRECTORS' REPORT TO THE SHAREHOLDERS

The 22nd Annual Report includes a summary report of operations, development and exploration at the mine sites by the Manager, Mr. J. W. Jordan, along with the consolidated balance sheet as at December 31, 1974, a consolidated statement of operations for the year, and the report of the auditors. Four interim dividends, one of 10¢, and three of 12¢ each were paid for a total of 46¢ per share as compared to 40¢ per share in 1973. To date, dividend payments have totalled some \$15,849,259 or \$2.61 per share and a further 8¢ has been declared payable March 17 to shareholders of record February 21.

The tonnages and grades of ores produced from the Orchan and Garon Lake Mines were lower due to the continuing shortage of experienced miners, the high labour turnover and consequent low productivity. Wage rates were increased substantially in several steps, within the first half of the year, with little effect on efficiency and performance. The production of copper concentrate was some 16% less than in the previous year and shipments to the Noranda smelter were supplemented temporarily with concentrate produced from the treatment of imported copper smelter cleanings treated in the Orchan mill on a toll basis. Zinc concentrate production was down by 36% and shipments to the Valleyfield, Quebec reduction plant were increased by the purchase of 31,360 tons of concentrate to fulfil Orchan's 18¾% ownership in Canadian Electrolytic Zinc.

Prices received for metals contained in concentrates were higher by 5% on average for copper and by 36% for zinc. As a result, net income was increased by some \$700,000 to \$5,129,860 or the equivalent of 85¢ per share. Expenditures on capital projects were high, totalling some \$5,024,000, and after the payment of \$2,787,000 in dividends there was a decrease in working capital of \$1,314,400.

Combined ore reserves for the two operating mines were reduced by the tonnage of ore mined with no significant change in grade. As explained in previous reports, the better grade zinc reserves remain in pillars. Some 32% of the zinc-bearing minerals are contained in 24% of the tonnage of ore in the main mine reserve. The extraction of pillars and remnants of ore will require more skilled miners than have been available in recent months.

Exploration from the Garon Lake mine throughout the second year of operation resulted in nothing more than a modest extension of tonnage in known ore lenses. The Norita project is behind schedule because the shaft contractor was unable to recruit and retain an experienced crew. Possibilities for obtaining production from the higher grade zinc ore in the upper west end of the mine prior to completion of the shaft are being examined. At the Radiore No. 2 Division of Bell Allard Mines, the decline ramp was completed but, because of lower market requirements and prices for copper, work has been suspended.

Canadian Electrolytic Zinc

Except for the period of a 44 day strike, the zinc reduction plant operated at 5% above rated capacity. Production was 134,780 tons of zinc, some 14,000 tons less than in 1973, and 771,850 pounds of cadmium, an increase of some 173,000 pounds over production in 1973 due to improved recovery.

The expansion project was seriously affected by labour shortages, low productivity, slow deliveries of equipment and other extraordinary delays which plagued construction efforts in Quebec throughout the year. Cost of the program has escalated by some 45% over 1972 estimates and the new capacity is not likely to come on stream before September 1975.

Operations at St. Lawrence Fertilizers were stopped on May 1 by an illegal strike which continued without settlement beyond the year end. Production and profit were reduced proportionately as by-product sulphuric acid from C.E.Z. was marketed elsewhere.

Profit from Federated Genco was increased but markets for the main products are related to the automobile industry which was in a serious slump at year end.

METAL MARKETS

Zinc

Zinc consumption continued to rise during the first half of 1974 but was limited by available production. After mid-year demand fell sharply as economic activity in the major Western World economies declined. By year end, U.S. stockpile sales were minimal and producer inventories were rising, leading to production cutbacks in Europe, the U.S.A. and Japan.

In the United States prices rose from 28-32¢ to 38-40¢ U.S. per pound. The Canadian price has been about 2¢ lower and is currently 37¢. The overseas producer price which was £300 per metric ton in January increased to £330 in March and £360 in September, equivalent to 38½¢ U.S. per lb.

Copper

Western World copper consumption in 1974 was down 7% compared to 1973, while refined production increased by 3% and 200,000 tons were released from the U.S. strategic stockpile. This led to a surplus of 500,000 tons by year end which was accompanied by falling prices and production and shipment cutbacks from the CIPEC countries, Pacific area mines, Japan and the U.S.A.

London Metal Exchange quotations reached a peak of \$1.52 per lb. in April and then progressively weakened to 56¢ by year end. Canadian prices rose from 73½¢ in January to 82½¢ by June before declining to 63¾¢ in January, 1975.

General

Mine operation has been extended beyond the expected life span of Orchan's ore reserves as estimated at the commencement of production in 1963. A large measure of credit for extending the operations is due to the continuous efforts of our long term employees. Your Directors acknowledge that loyalty and cooperation and the important contribution made by the Manager, staff and employees to the results for 1974.

On behalf of the Board,

J. P. DOLAN,
Chairman.

D. E. G. SCHMITT,
President.

Toronto, Ontario
February 13, 1975

MINE MANAGER'S REPORT

To the President and Directors:

This report summarizes operations at the minesites for the year ended December 31, 1974.

PRODUCTION

Ores produced from the Orchan Mine and from the Garon Lake Division were treated in the concentrator at an average rate of 997 tons per day. Production from the Orchan Mine totalled 219,870 tons with grades averaging 6.96% zinc and 1.00% copper. Metal recoveries in concentrates were 85.49% and 79.78% respectively. An additional 144,160 tons of ore were produced from the Garon Lake Division averaging 1.47% zinc and 1.45% copper. Recoveries were 53.99% and 86.28% respectively.

The following tabulation presents the consolidated production statistics for the past two years.

		1974	1973
Ore treated	— dry tons	364,031	450,230
Zinc concentrate	— dry tons	27,155	40,936
Zinc contained in concentrate	— pounds	28,446,030	43,706,000
Copper concentrate	— dry tons	14,053	16,787
Copper contained in concentrate	— pounds	7,112,070	8,496,110
Silver contained in concentrate	— ounces	58,397	93,993
Gold contained in concentrate	— ounces	997	1,210

ORE RESERVES — January 1, 1975

Total proven ore reserves at the Orchan Mine and at the Garon Lake Division declined by 362,725 tons to:

	Tons	% Zinc	% Copper	Oz/Ton	
				Silver	Gold
Orchan Mine	1,350,750	8.8	1.1	0.9	0.01
Garon Lake Division	215,120	1.6	1.8	0.3	0.01
Total and combined average grades	<u>1,565,870</u>	<u>7.8</u>	<u>1.2</u>	<u>0.8</u>	<u>0.01</u>

ORCHAN MINE

Underground advances were:

		1974	1973	To Date
Exploration and development	— feet	216	928	42,541
Stope preparation	— feet	<u>7,347</u>	<u>8,967</u>	<u>67,293</u>
Total advance	— feet	<u>7,563</u>	<u>9,895</u>	<u>109,834</u>
Diamond Drilling	— feet	10,671	12,712	326,607

GARON LAKE DIVISION

	<u>1974</u>	<u>1973</u>	<u>To Date</u>
Development and stope preparation — feet	2,723	2,834	12,148
Diamond Drilling — feet	12,177	9,926	26,187

NORITA DIVISION

Shaft sinking has been advanced to a depth of 993 feet, and three level stations have been excavated. Depth of shaft remaining to be sunk is 670 feet. Drill indicated reserves remain at 1,637,000 tons averaging 7.6% zinc and 0.7% copper without allowance for dilution in mining. Production is planned to commence in 1976.

RADIORE No. 2 DIVISION (of Bell Allard Mines Limited)

The ramp decline was advanced to 1510 feet from the portal entrance. Previous drilling indicated some 139,400 tons of 2.2% copper and 1.1% zinc. Production plans have been suspended pending improved copper prices.

BELL ALLARD MINES LIMITED

Three surface diamond drill holes totalling 1367 feet were drilled on the north group of claims. No significant mineralization was encountered.

AREA EXPLORATION

Participation with Noranda Exploration Company Limited continued on a surface exploration program on the Bell Channel and the Dumagami groups of claims between the Norita and Garon Lake properties. Twelve holes were completed totalling 8,207 feet. No significant ore intersections were encountered.

GENERAL

A shortage of skilled labour, together with a high turnover and absentee rate continued to adversely affect production at the Orchan Mine and Garon Lake Division, as well as development schedules at Norita and Radiore No. 2.

I wish to express my appreciation to the Department Heads, Messrs. L. Gendron, J. J. Bell, D. Thornham, D. Donaldson, and to all employees for their services throughout the year.

Respectively submitted,

J. W. Jordan
Manager

Matagami, Quebec
January 10, 1975

ORCHAN MINES LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1974

(with comparative figures at December 31, 1973)

1974

1973

ASSETS

Current assets:

Cash and short-term deposits	\$ 878,906	\$ 2,891,560
Marketable investments, at cost (quoted market value \$2,502,000 in 1974; \$3,444,000 in 1973)	3,079,084	3,079,084
Accounts receivable	269,531	77,594
Metals and concentrates on hand, in transit or due for settlement, at estimated net realizable value	7,773,652	6,180,657
Stores and prepaid expenses, at cost	510,916	339,620
Total current assets	12,512,089	12,568,515

Taxes recoverable (note 2)	773,425	286,355
----------------------------------	---------	---------

Investments in and advances to other companies (note 1)	1,769,501	1,696,978
---	-----------	-----------

Fixed assets, at cost (note 4):

Land, buildings and equipment —		
Mine site	11,085,666	10,733,623
Zinc reduction plant	6,232,980	6,038,272
	17,318,646	16,771,895
Less accumulated depreciation	13,503,004	12,401,459
	3,815,642	4,370,436
Mining properties and claims, at cost less amounts written off	1,122,321	1,164,338
Projects under construction	3,665,839	2,205,430
Net fixed assets	8,603,802	7,740,204

Preproduction and deferred development expenditures, at cost less amounts written off	3,868,764	1,140,690
	<u>\$27,527,581</u>	<u>\$23,432,742</u>

LIABILITIES

Current liabilities:

Accounts payable	\$ 1,589,230	\$ 1,155,887
Taxes payable	1,528,620	703,973
Total current liabilities	3,117,850	1,859,860

Taxes provided not currently payable	2,046,000	1,522,000
--	-----------	-----------

Due on mining properties (note 3)	990,000	1,020,000
---	---------	-----------

Shareholders' equity:

Capital stock —		
Authorized:		
6,500,000 shares of \$1 each		
Issued:		
6,058,720 shares	6,058,720	6,058,720
Less net discount	2,613,750	2,613,750
	3,444,970	3,444,970
Retained earnings	17,928,761	15,585,912
Total shareholders' equity	21,373,731	19,030,882
	<u>\$27,527,581</u>	<u>\$23,432,742</u>

On behalf of the Board:

J. P. DOLAN, Director

D. E. G. SCHMITT, Director

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1974
(with comparative figures for 1973)

	1974	1973
Revenue — from metals and concentrates	\$19,265,276	\$15,957,092
Expenses:		
Cost of production	10,488,115	8,263,196
Administrative expense	188,593	162,764
Depreciation	1,148,776	978,498
Amortization of mining properties, preproduction and deferred development	272,105	675,182
	12,097,589	10,079,640
Operating income	7,167,687	5,877,452
Investment income	446,473	385,795
Income before taxes	7,614,160	6,263,247
Income and production taxes	2,484,300	1,830,000
Net income	5,129,860	4,433,247
Retained earnings:		
Opening balance	15,585,912	13,576,153
	20,715,772	18,009,400
Dividends	2,787,011	2,423,488
Closing balance	\$17,928,761	\$15,585,912
Earnings per share (note 2)	85¢	73¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1974
(with comparative figures for 1973)

	1974	1973
Working capital, beginning of year	\$10,708,655	\$10,235,005
Source of funds:		
From operations —		
Net income	5,129,860	4,433,247
Add charges not requiring an outlay of funds:		
Depreciation	1,148,776	978,498
Amortization	272,105	675,182
Taxes provided not currently payable	524,000	52,000
Loss on disposal of fixed assets	13,627	105,676
	7,088,368	6,244,603
Application of funds:		
Fixed assets — mine sites	352,043	1,819,879
— zinc reduction plant	3,201,893	730,721
Deferred preproduction and development	1,472,244	584,156
Purchase of mining property, net of amount due		15,375
Increase in non-current taxes recoverable	487,070	
Increase in investments and advances	72,523	152,334
Maturity of long-term debt	30,000	45,000
Dividends paid	2,787,011	2,423,488
	8,402,784	5,770,953
Net (decrease) increase in working capital	(1,314,416)	473,650
Working capital, end of year	\$ 9,394,239	\$10,708,655

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1974

1. The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned. The company has interests in unincorporated joint ventures and these are included in the financial statements on a line-by-line basis.

Investments in and advances to other companies are carried at cost adjusted by the company's equity in income or losses since the date of investment.

2. (a) Bell Allard Mines Limited, a subsidiary, applied to the Department of National Revenue for a three-year exemption from income taxes commencing April 1, 1968. The application has not been granted on the ground that Bell Allard's open pit is an extension of the Orchan mine; however, the directors of Bell Allard dispute this and that company has filed its income tax returns claiming the exemption.

If, ultimately, Bell Allard does not receive the three-year exemption, shareholders' equity will be reduced by income taxes and accrued interest aggregating approximately \$1,233,000 which will be payable but have not been provided for in the accounts. Additional interest and taxes included in this sum in 1974 would have reduced earnings per share by 2¢ (1¢ in 1973). The company would use up in arriving at the \$1,233,000 some \$975,000 of costs otherwise deductible from future taxable income, representing the excess of unclaimed capital costs and unamortized preproduction costs over net book values. The potential tax value of the \$975,000 has not been reflected in the financial statements. Of the \$1,233,000, \$773,425 has been paid on income tax assessments, which are being appealed. These payments are shown as non-current income taxes recoverable.

- (b) The company received approval of its application for exemption from income taxes on earnings up to December 31, 1973 from its Garon Lake mine.

3. With respect to the long-term liability for amounts due on mining properties, the \$990,000 is payable proportionately to production of the first 2,000,000 tons of ore from a mine now being developed and scheduled to come into production in 1976.

4. Fixed assets are being depreciated on a straight-line basis as follows:

Mine site assets	—	to December 31, 1976
Zinc reduction plant	—	to December 31, 1981

Mining properties and claims and preproduction and deferred development costs are being amortized on the unit of production method.

5. Capital outlays over the next three years are expected to be approximately \$6.6 million, of which \$4.3 million will be spent in 1975.
6. Statutory information — total remuneration paid in 1974 to directors of the company consisted of directors' fees of \$9,400. Total remuneration of the five highest paid employees of the company (who are not directors or officers) was \$102,995 and pension benefits totalled \$8,460.
7. In 1963 an action was commenced in the Superior Court of Quebec in which the Plaintiff requested the Court to declare the nullity of the mining concession and the patent therefor issued to Orchan Mines Limited (comprising the whole of the Orchan mining property) and to declare valid and legal the staking by him of certain mining claims covered by this mining concession. The company thereupon filed a defence and Inscription in Law, and since that time no further proceedings have been made by the Plaintiff. In the opinion of the company's solicitors, the action is ill founded.

AUDITORS' REPORT

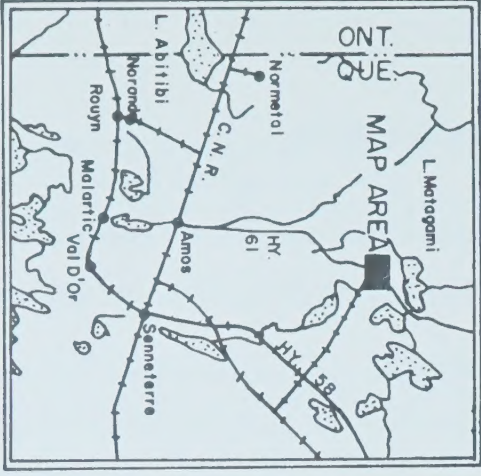
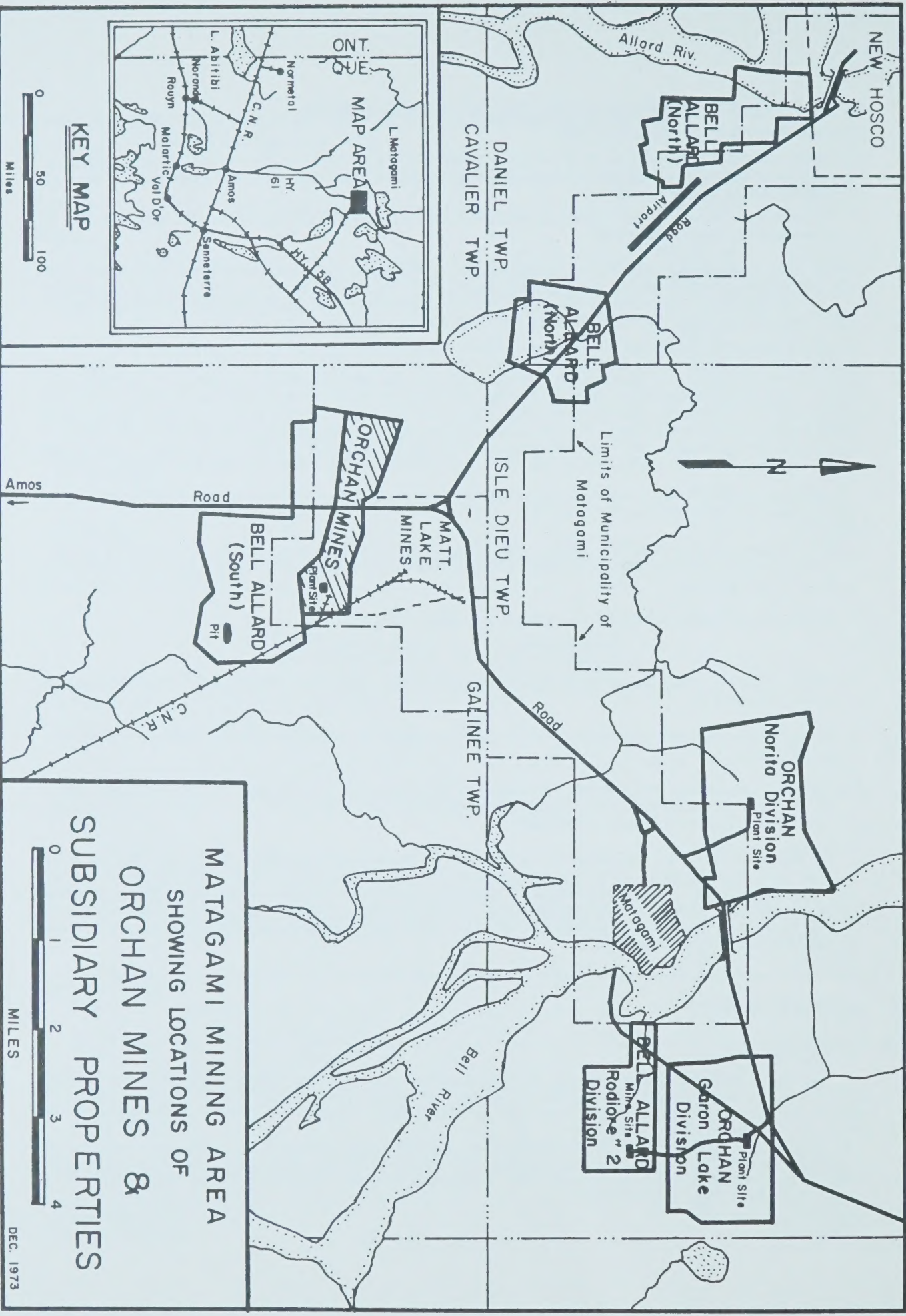
To the Shareholders of
Orchan Mines Limited:

We have examined the consolidated balance sheet of Orchan Mines Limited and its subsidiaries as at December 31, 1974, and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

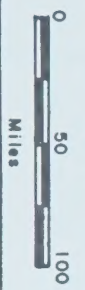
In our opinion, subject to the possible additional liability for income taxes as explained in note 2, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 5, 1975.

Clarkson, Gordon & Co.
Chartered Accountants



KEY MAP



**MATAGAMI MINING AREA
SHOWING LOCATIONS OF
ORCHAN MINES &
SUBSIDIARY PROPERTIES**

